

Ontario Student Assistance Program

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The Ontario Student Assistance Program (OSAP) is a federally and provincially funded program that provides needs-based financial assistance to full-time and part-time students to enable them to attend an approved postsecondary institution. Under the *Ministry of Colleges and Universities Act* and Regulations, provincial financial assistance to students is provided primarily by loans under the Ontario Student Loans program. The Ministry of Education and Training receives a fee from the federal government to assess students' needs and authorize loans under the Canada Student Loans program.

During the 1996/97 fiscal year, the Ministry authorized and guaranteed new Ontario Student Loans totalling \$754 million and approved a further \$893 million in new Canada Student Loans. In 1996/97 about half of the students in approved postsecondary institutions received OSAP loans. The average combined loan amount was \$7,780.

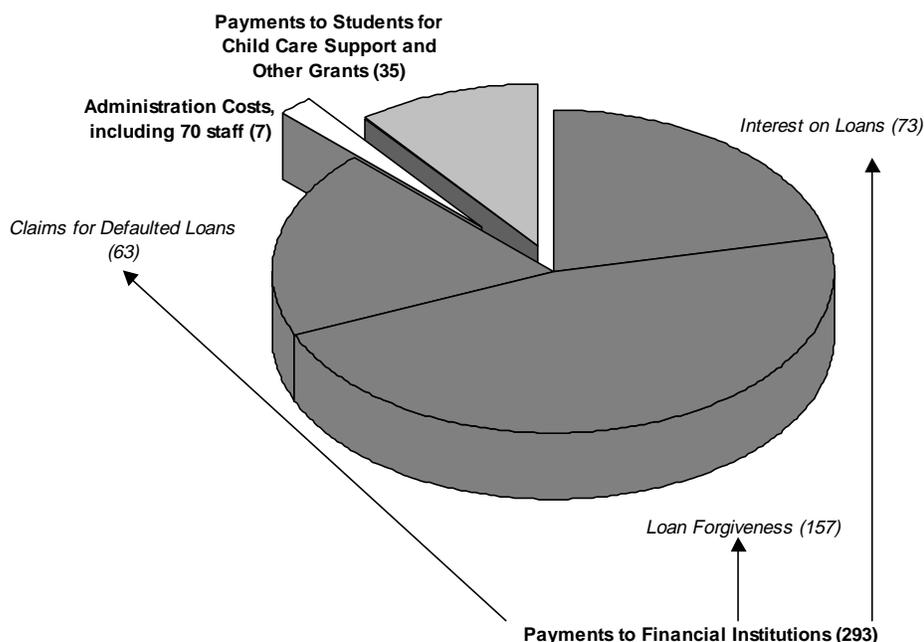
The amount students may borrow under the programs depends on their circumstances, but for each week of study cannot exceed \$275 for single students and \$500 for married or sole support students. All Ontario and Canada Student Loans are provided by banks directly to students under the terms prescribed in the respective provincial and federal legislation. While students are expected to repay their loans, the Ministry pays banks the interest on their student loan balances while the students attend school and for the six months following completion, and also guarantees repayment of the principal amounts should students default. The federal government does not pay interest on Canada Student Loans during the six months following completion and since August 1, 1995 no longer guarantees such loans.

Commencing in the 1993/94 fiscal year, Ontario Study Grants were replaced by a Loans Forgiveness Program which limits the amount of loans a student will be required to repay for each two terms of study to \$6,000. A loan forgiveness payment, which reduces a student's loan payable, is made directly to a bank soon after studies are completed and the student commences repayment.

As of March 31, 1997, there were some 438,000 Ontario Student Loans totalling \$2,195 million guaranteed to banks by the province. About 32%, or \$714 million, was loaned to students who had completed their studies and were repaying their loans. It is expected that approximately \$800 million or over half of the remaining loans will be forgiven in the future.

For the 1996/97 fiscal year, program expenditures totalled \$335 million and were disbursed as follows.

OSAP Expenditures for Fiscal 1996/97 (\$ Millions)



Source: Ministry of Education and Training

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry had established adequate systems and procedures:

- to ensure that the program was being delivered economically, efficiently and in accordance with the program's legislated authority and approved policies and guidelines; and
- to measure and report on its effectiveness in achieving the program's legislated and stated goals and objectives.

Our audit was conducted primarily at the Student Support Branch located in Thunder Bay and included such interviews, audit procedures and testing as we considered necessary. In addition, we contacted financial institutions, postsecondary institutions and the federal government to inquire about their roles and relationships with the Ministry. We also researched student financial aid programs in other jurisdictions and reviewed relevant work on the Branch by the Ministry's Audit, Compliance and Evaluation Branch.

OVERALL AUDIT OBSERVATIONS

The Ministry would obtain substantial savings from implementing initiatives introduced in other jurisdictions to reduce the risk and cost of defaulted student loans. For example, other provinces and the federal government have entered into agreements with their financial institutions

that transfer the risk of losses from student loan defaults to the institutions for a fee. Additionally, other jurisdictions have taken punitive measures against postsecondary institutions experiencing high student default rates.

We also noted other significant savings opportunities and improvements that were needed, including:

- better oversight of the program delivery activities of postsecondary institutions by the Ministry;
- better verification of the information provided by students in their applications for assistance; and
- much more timely and effective efforts to identify and recover over \$100 million in loan, loan forgiveness and bursary overpayments, and defaulted student loans.

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The Ministry has worked to reduce program costs by improving procedures, delegating more responsibilities to postsecondary institutions and increasing automation. The Ministry's cost per application has decreased from approximately \$47 to \$27 over the last five years, and the Ministry expects the costs to decline further with the implementation in 1997 of additional automation and refinement of financial and administrative systems and procedures. However, delays in implementing new systems to automate the transfer of information and transactions between the Ministry and financial and postsecondary institutions have resulted in large processing backlogs with financial institutions and delayed further reductions in program costs.

The Ministry also needs to establish performance measures that demonstrate the efficiency and effectiveness of the program. These measures should reflect the achievement of the OSAP business plan and the relationship between OSAP policies and results and other postsecondary education policies such as funding for postsecondary institutions, tuition fees and access to postsecondary education. These results should be reported annually to the Legislature.

DETAILED AUDIT OBSERVATIONS

CONTROLS OVER POSTSECONDARY INSTITUTIONS

The majority of students in Ontario submit their applications and supporting documents to the Financial Aid Office or registrar of their postsecondary institutions. While procedural guidelines for these offices are established by the Ministry, the institutions provide the staff and resources to help their students obtain financial assistance. Offices are expected to ensure that applications are properly completed and include the necessary supporting documentation. Once approved by an officer, applications are forwarded to the Ministry for determining eligibility and loan entitlement amounts. Supporting documentation remains at the institution.

Over the last several years, the 37 Financial Aid Offices have been delegated additional decision-making responsibilities, such as hearing student appeals and administering special assistance bursaries for disabled students and those requiring child care assistance. In addition, Financial Aid Offices have been equipped with on-line computer terminals permitting officers to

directly update the Ministry's student database such as changing a student's enrolment status, marital status or address.

While institutions have been delegated key responsibilities for delivering the program, no agreements have been established with them specifying mutual responsibilities or the institution's accountability and reporting requirements to the Ministry. An agreement would clearly establish the Ministry's ability to monitor compliance to OSAP requirements and document a formal commitment from an institution's senior management as to what expectations and standards are to be met and when.

There has also been a lack of oversight by the Ministry regarding the quality of work done by the institutions. After an institution has been approved to participate in OSAP, there has been no further monitoring of its delivery of the program. Most of the 360 approved institutions in Ontario have participated in the program for many years, yet no periodic inspections had been done to verify that adequate records have been kept on students or that procedures complied with program requirements.

We examined a representative sample of files from institutions for applicants approved during the 1995/96 academic year in order to assess the extent to which program requirements had been met. We determined that the information available in several of these files was inadequate to support the officers' approvals and that in some cases students had been provided with more assistance than warranted.

Extensive information on students exists in the Ministry's OSAP databases. However, this information has not been used to help reduce the risk of abuse by students or institutions. There are virtually countless risk analyses that can be done. For example, our own analyses detected several single parent students who obtained additional funding by claiming an increase of at least three children from the previous year. We forwarded these cases to the Ministry for further investigation.

The risk of abuse of the program can be high. For example, the Ministry identified an institution that had inappropriately approved a large number of applications from students reporting no income. A forensic audit was still in progress at the time of our audit and \$3.8 million in inappropriately released loans had so far been identified. The institution has reimbursed the Ministry for this amount and committed to implement proper procedures to prevent future occurrences.

In the fall of 1996 a Standards, Monitoring and Compliance Unit was created to develop performance standards, analysis and inspection tools, and compliance enforcement procedures. As of December 1996 these were under development and so new procedures had not yet begun.

Some other provinces do random audits of a sample of students to verify the accuracy of information submitted on their applications. Such audits have the added benefit of evaluating the due diligence of the institutions and the quality of the procedures that they have performed.

Recommendation

In order to improve the way postsecondary institutions deliver key aspects of the Ontario Student Assistance Program, the Ministry should:

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- establish agreements with approved postsecondary institutions that set out mutual responsibilities and appropriate accountability and reporting requirements;
- develop a program for inspecting postsecondary institutions based on analyses of the risk of abuse by students or institutions;
- perform regular audits in order to identify postsecondary institutions that do not adhere to program requirements or abuse the program; and
- establish appropriate disciplinary measures for institutions that do not meet requirements.

Ministry Response

The Ministry has initiated the development of agreements with postsecondary institutions that set out roles and responsibilities and disciplinary measures for institutions that do not meet these requirements. It is anticipated that the agreements will be finalized and signed by all approved Ontario postsecondary institutions by March 31, 1998. Performance agreements for OSAP-approved private vocational schools have been developed and signed.

In 1997/98 the Student Support Branch, in conjunction with the Ministry's Internal Audit and Private Vocational Schools Units, will develop an audit strategy for postsecondary institutions. Other jurisdictions will be consulted to identify best audit practices. Based on this analysis a systematic audit program will be implemented in 1998/99.

APPLICATIONS ADMINISTRATION

PROCESSING OVERVIEW

During the 1996/97 fiscal year, the Ministry received approximately 257,000 applications for financial assistance. All applications received by the Ministry are scanned and stored electronically for later retrieval on-line, and then sent out for data entry by a private sector service provider. Applications are electronically checked for accuracy, completeness and eligibility and assessed for loan entitlement based on criteria such as student type, reported income, educational costs and standard living allowances. While the federal and provincial loans programs are similar, certain eligibility criteria differ and a separate determination of loan entitlement is required for each.

After eligibility is approved and the entitlement determined, students are sent Loan Authorization Forms for Canada Student Loans and/or Ontario Student Loans, depending on the postsecondary institution and educational program in which the student has enrolled. In cases where both types of loans were approved, Canada Student Loans represented 60% of the authorized loan amounts with the remaining 40% authorized by the province. Students take their Loan Authorization Forms to any participating financial institution and may borrow up to the authorized amounts.

DETERMINING LOAN ENTITLEMENT AMOUNTS

Ontario is the only province that has not yet implemented the federal government's needs assessment criteria which were revised in 1994. These criteria use more recent federal living allowance data for assessing student needs and determining loan entitlements. Needs assessment criteria in use in Ontario were established by the federal government in 1984.

In addition, prior to 1993/94 students were provided with Ontario Study Grants before being assessed for loans, and assistance was reduced or denied for applicants with access to significant real or personal assets such as savings accounts, investments and recreational properties. However, since such grants were discontinued in 1993/94, assets have not been included in the loan entitlement calculations.

Ministry management stated that adoption of the new federal criteria was postponed in 1995/96 because the federal government did not finalize the criteria in time for proper implementation and in 1996/97 because of the public service strike. They expected to revise the needs assessment criteria and consider assets for students applying for 1997/98 and subsequent academic years.

Since 1995 the Ministry has been questioning students reporting no income for themselves or their spouses as to how they were able to sustain themselves without an income. However, other very low incomes are not questioned. For example, we identified over 700 students that reported total family incomes below \$1,000 on their 1995/96 applications. A more appropriate minimum income level needs to be established for requiring an explanation from an applicant prior to approval.

Recommendation

In order to ensure that loan entitlements are properly determined, the Ministry should:

- **update needs assessment criteria to use more recent federal information;**
- **give due consideration to student and spousal assets when calculating loan entitlements; and**
- **require explanations from applicants who report personal and spousal incomes below a specified level.**

Ministry Response

Effective for the 1997/98 academic year, the federal government's financial needs assessment criteria based on various federal databases (for example, Statistics Canada Family Expenditure Survey, Canada Mortgage and Housing data) will be used to calculate Canada and Ontario student loan entitlements.

As is the case for Canada Student Loans, student and spousal assets will be used in 1997/98 for Ontario Student Loan purposes. Revisions will be made to the Ontario Student Loan Regulation 774 to permit consideration of student and spousal assets in determining loan entitlements.

An analysis of income data will be completed prior to the commencement of the 1998/99 academic year to determine: what level of reported income will require explanations from applicants; necessary procedures; and the consequences for applicants incorrectly reporting low incomes.

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CHILD CARE SUPPORT

Students with children can apply for additional financial assistance to cover the cost of child care expenses while in school. Payments for child care support were \$14.7 million for the 1994/95 fiscal year, and \$20.7 million for 1995/96. The Ministry distributed approximately 34% directly to students and the remainder was managed by the Financial Aid Offices in publicly funded institutions.

We concluded that procedures to establish eligibility for child care support were inadequate.

Prior to the 1996/97 fiscal year, OSAP provided child care support in the form of bursaries. Funds were disbursed to students at the start of the school term with the condition that students subsequently provide receipts for actual child care expenses incurred. The Ministry was in the process of recovering a substantial portion of these bursaries because over 50% of the students failed to provide receipts. No controls were in place at the time to discontinue further child care support in subsequent periods to students who failed to provide receipts in the previous period. During our audit, the Ministry had identified recoveries of \$1.6 million in child care bursaries relating to the 1993/94 fiscal year and part of 1994/95, and was in the process of determining recoveries for the balance of 1994/95 and all of 1995/96.

In addition, in 1994/95 and 1995/96 students were not required to provide documentation substantiating their custody of children. Consequently there was an increased risk during this period that students could have misrepresented themselves in order to obtain child care support grants.

For the 1996/97 fiscal year, new policies were implemented whereby students must now provide documents supporting custody of each child, loans instead of bursaries are now provided for the first two children, and child care receipts are no longer required for the first two children.

However, the Ministry repays loans above \$6,000 per two terms of study under the Loans Forgiveness Program and students with children typically qualify for loans exceeding this amount. Given that the additional loans provided for child care will likely be forgiven, we believe that it would be prudent to reinstate the policy requiring receipts for all child care expenses.

Controls were also insufficient for the \$20 million annually in bursary funds, including child care support, managed by the 37 Financial Aid Offices in postsecondary institutions. For example, financial reports submitted by the institutions were not audited or reconciled with the Ministry's accounting records, and the students that received assistance were not identified. Risks such as duplicate child care support paid to a spouse attending a different institution and inappropriate use of bursary funds by institutions are possible without such controls.

Our review of files received from Financial Aid Offices also determined that a large number of students had not provided receipts for child care expenses incurred prior to 1996/97 and thus

should have their bursaries recovered. The Ministry could not determine whether Financial Aid Offices were forwarding all such cases to the Ministry so that appropriate recovery procedures could begin.

Recommendation

To improve controls over bursary payments and in particular child care support, the Ministry should:

- **revise procedures and system controls to ensure that child care support is not provided to students who fail to submit receipts; and**
- **establish appropriate reporting and monitoring procedures for bursary funds managed by postsecondary institutions' financial aid offices.**

Ministry Response

In conjunction with postsecondary institutions, the Ministry has implemented procedures for the 1997/98 academic year to ensure that Child Care Bursary funding is provided only to students who provide proper child care receipts. The feasibility of verifying reported child care expenses with Revenue Canada will be explored in 1997/98.

Appropriate reporting and monitoring procedures for bursary funds managed by Financial Aid Offices will be included in the student assistance administration agreements established with postsecondary institutions. Postsecondary institutions have been advised that audits of several institutions' bursary fund management practices will be conducted in 1997/98.

VERIFICATION OF INCOMES WITH REVENUE CANADA INFORMATION

The Ministry has information-sharing arrangements with Revenue Canada to permit verification of incomes reported on student applications against income tax information. If students who understate incomes are detected early enough, the Ministry will reduce their loan entitlements for subsequent periods or reduce their entitlements under the Loan Forgiveness Program.

We had several concerns regarding the income verification process.

- Students are required to report on their applications the income they earned during the 16-week period prior to studies, but these amounts can't be verified using income tax information. Prior year's income, which can be verified, was not requested or used for assessment purposes. Only parental income and spousal income was verified, which would have affected only about half of the students who applied. Therefore, the effectiveness of the income verification process was quite limited.

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- Verification efforts were not timely. Income verification for loans issued in the 1993/94 and 1994/95 fiscal years was not done until October 1996 and November 1996, respectively. These income verification efforts identified approximately \$6.3 million to be recovered from students. Delays in verifying income resulted in the Ministry having to initiate collection procedures because most of the identified students were no longer attending school and often had already had large portions of their loans forgiven.
- The recent income verification also identified approximately 25,000 students whose loans should each have been at least \$1,000 less than the authorized amount and some 20 students whose loans should each have been at least \$15,000 less. The Ministry does not require the students to immediately repay their loans when it is determined that they have understated their incomes. Consequently, we estimate that the Ministry pays over \$600,000 per year to banks for interest on ineligible loans.

Recommendations

In order to enhance the effectiveness of using Revenue Canada income tax information to verify incomes, the Ministry should:

- **revise its needs assessment criteria and applications to include consideration and reporting of a student's income for both the prior year and the 16 weeks prior to starting school; and**
- **investigate students with significant discrepancies between incomes reported to Revenue Canada and the Ministry and consider more severe actions against those students, such as requiring immediate repayment of loans or, in cases of gross misrepresentation, taking legal action.**

To reduce the risk of overpayments under the Loan Forgiveness Program, income verification should be done on a more timely basis and forgiveness should not be authorized until income verification has been completed.

Ministry Response

Since the Ministry has aligned Ontario Student Loan assessment criteria with criteria developed by Human Resources Development Canada for Canada Student Loans, consistent with the Provincial Auditor's recommendation, changes to student loan assessment criteria must be negotiated and developed with Human Resources Development Canada. The Ministry has requested Human Resources Development Canada to consider implementing the recommendations made by the Provincial Auditor for 1998/99. In the interim, the Ministry is presently analyzing potential methodologies to estimate total annual income based on information provided by students for both the 16 week pre-study period and the study period.

Effective for 1997/98, students with large discrepancies in incomes reported in previous years will be denied student loan funding until such time as the discrepancies can be explained or funding inappropriately received in previous years is repaid. The Ministry is working with Legal Counsel to determine in what situations legal action can be taken. Amendments to existing Ontario Student Loan Regulations will be tabled with the Legislature's Regulations Committee that, if approved, will give the Ministry much broader authority to collect and take action against students that have fraudulently obtained Ontario Student Assistance Program funding.

The Ministry has established procedures to ensure that income verification is done on a regular, annual basis. Effective for 1997/98, Loan Forgiveness payments will not be made until students have consolidated loans for repayment and all income reported has been verified with Revenue Canada.

ADDITIONAL VERIFICATION MEASURES

There are several other electronic sources of information that could be used to verify information provided on students' applications. For example, data linkages may be possible with:

- the registrar of births, marriages and deaths to verify information about children and marital status;
- drivers' licences and motor vehicle registrations to obtain current addresses; and
- enrolment records at schools to verify a student's status and program.

In addition, since the August 1, 1996 changes to legislation governing social assistance, most students attending postsecondary schools are now being denied social assistance and consequently are applying for OSAP. Data linkages with the Ministry of Community and Social Services would help detect instances where students have received both loans and social assistance.

Recommendation

In order to enhance controls over eligibility and needs verification, the Ministry should investigate the costs and benefits of establishing data linkages with other information databases.

Ministry Response

In April 1997 the Ministry of Education and Training and the Ministry of Community and Social Services signed a data exchange agreement with the purpose of identifying the potential extent of students receiving student and social assistance support at the same time.

The Ministry will review the feasibility of linkages with other information databases in 1997/98.

FINANCIAL MANAGEMENT

We concluded that internal controls over payments were less than satisfactory. We noted many opportunities for improving processing efficiency and reducing costs using better information and procedures. In addition to the deficiencies noted below, we informed the Ministry of several less significant audit observations and recommendations for improving internal controls, operations and accountability, and for reducing costs.

AGREEMENTS AND PROCEDURES WITH FINANCIAL INSTITUTIONS

As of February 28, 1997 over 150,000 documents were backlogged because the Ministry's automated processing systems had rejected documents that contained errors. Staff must investigate the reasons for the errors, which can be time consuming as the financial or postsecondary institution often must be contacted to provide additional information. While the Ministry was monitoring the number of documents in backlog, the backlog had been growing steadily for some time and no timetable had been set for reducing it to a more manageable level. Backlogs generally delay payments to the financial institutions.

The need for new procedures with financial institutions was evident in November 1996 when a bank requested that the Ministry use students' social insurance numbers to compare the bank's database of student loans with that of OSAP. The analysis determined that over 2,000 loans did not match and another 5,000 had not been processed by OSAP because of errors.

The Ministry is working toward more automated information exchanges and transactions with financial institutions that will improve processing efficiencies and reduce discrepancies between the records of OSAP and the financial institutions. The Ministry is installing new computers in 1997, at a cost of approximately \$800,000 annually, that are intended to support these efforts, along with other cost-saving initiatives. The Ministry expects these initiatives to reduce annual program costs by \$2.6 million starting in the 1997/98 fiscal year.

When the existing computers were purchased in 1991, their acquisition was justified in part on the basis of savings to be derived from establishing Electronic Data Interchange (EDI) with the financial institutions. While the changes in 1991 helped to reduce the cost of processing an application from \$47 to \$27 over the last five years, EDI with the banks was never implemented. No formal agreements exist with financial institutions to clearly define roles and responsibilities, nor has a timetable been established for implementing EDI arrangements with banks to achieve the desired benefits.

While financial institutions are provided with administrative guidelines and a periodic newsletter which outlines procedural requirements, formal agreements with the financial institutions would also help clarify accountability for the increasing program delivery responsibilities being delegated to them. For example, the Ministry requires financial institutions to obtain and retain supporting documentation from former students who request assistance under the Interest Relief Program. To assist debtors who experience temporary hardships, the Ministry will pay the interest on their loans for six month periods to a maximum of 18 months. During the 1996/97 fiscal year, interest relief payments were approximately \$4.9 million. Since financial institutions benefit from this program by receiving continued interest on loans, responsibilities and requirements must be clearly established to ensure that interest relief is provided only to debtors who qualify.

Recommendation

In order to improve payment processing efficiency and to formalize relationships with financial institutions, the Ministry should:

- **establish plans, timetables and commitments for reducing backlogs to a more manageable level;**
- **negotiate formal agreements with the financial institutions for implementing the new automated financial arrangements and for clarifying program delivery expectations; and**
- **track the achievement of the benefits arising from the proposed Electronic Data Interchange arrangements with the financial institutions.**

Ministry Response

The Ministry has now established plans to eliminate existing backlogs with major lenders. In light of the significant systems changes required by the Ministry and lenders, this will be a multi-phased project with the intention of eliminating backlogs by the end of 1998.

In 1997/98, as part of negotiations and anticipated agreements with lenders for an Income Contingent Loan Repayment Program, the Ministry will enter into formal agreements with lenders to clearly delineate procedures, roles, responsibilities and time lines. These agreements will include performance measures that will identify and quantify the benefits of Electronic Data Interchange.

PAYMENT SYSTEM WEAKNESSES

Our testing of various types of payment transactions indicated that many controls over payments were working as intended. However, we noted several ways to improve the information used to calculate and control payments.

- Two separate databases and systems are used to administer the OSAP: one for processing applications and authorizing new loans to students; and the other for loans administration, including payments to banks. We noted significant differences between these databases resulting from updating each system separately with the same information. For example, a computerized comparison of the data contained on the two systems identified approximately 15,000 discrepancies, primarily due to the timing of updates in each system. The discrepancies involved differences in the dates used for calculating interest and loan forgiveness payments.

Financial Aid Offices directly update the applications administration database using their on-site terminals for such changes as student withdrawals from schools. The loans administration database is only updated when the Ministry receives documentation from the Financial Aid Offices. However, we noted there were delays in the reporting and processing of approximately 30% of the student withdrawals from postsecondary institutions, many of which were delayed from six months to one year.

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- The loan authorization forms for Ontario and Canada Student Loans permit students to obtain loans from financial institutions up to the authorized amounts. While most students obtain loans for the full amount, some students borrow lesser amounts. Although financial institutions are required to report to the Ministry the actual amounts borrowed for both Ontario and Canada Student Loans, only about half provide this information for Canada Student Loans. When this information is not provided, the loans administration system calculates loan forgiveness payments using the amounts authorized for Canada Student Loans and the actual amounts of Ontario Student Loans. We estimated that this method of processing loan forgiveness payments has resulted in overpayments of approximately \$5 million annually.
- The Regulation permits loan forgiveness payments only for students who enter into repayment arrangements with their financial institutions. However, we estimated that approximately \$4 million annually was paid in loan forgiveness to certain banks for students who failed to make any repayment arrangements and defaulted on their loans. This situation arises because the Ministry, in order to improve processing efficiency, allows these banks to automatically request loan forgiveness payments six months after students have completed their studies. In any case, the banks would have collected the \$4 million from loan repayment guarantees. However, the Ministry attempted to collect from the students only the lesser amount after loan forgiveness payments. Since these students were not entitled to loan forgiveness, reported default payments were understated and loan forgiveness payments were overstated.

Recommendations

In order to better ensure that payments to financial institutions are appropriate, the Ministry should:

- **determine and correct differences in important information on its two major databases, and examine options for better integrating its two databases to avoid differences arising in future;**
- **ensure that complete information is received on the actual amounts that students obtained for Canada Student Loans; and**
- **ensure that systems and procedures for processing forgiveness payments comply with legislation.**

The Ministry should also obtain the actual amounts of Canada Student Loans issued in the last three years in order to determine and recover overpayments of loan forgiveness.

Ministry Response

The Ministry plans to integrate the Ontario Student Assistance Program assessment database and the Ontario Student Loan administrative databases as part of the ongoing work to improve the coordination of Ontario Student Loan administration with lenders. It is anticipated that this will be complete by the end of 1998.

The Ministry will work with lenders as they revise their computer systems to ensure that the appropriate data transfers are made to calculate loan forgiveness entitlements.

Effective 1997/98, Loan Forgiveness payments will be made in compliance with Ontario Student Loan Regulations (for example, only in situations where all income has been verified and students have consolidated loans for repayment).

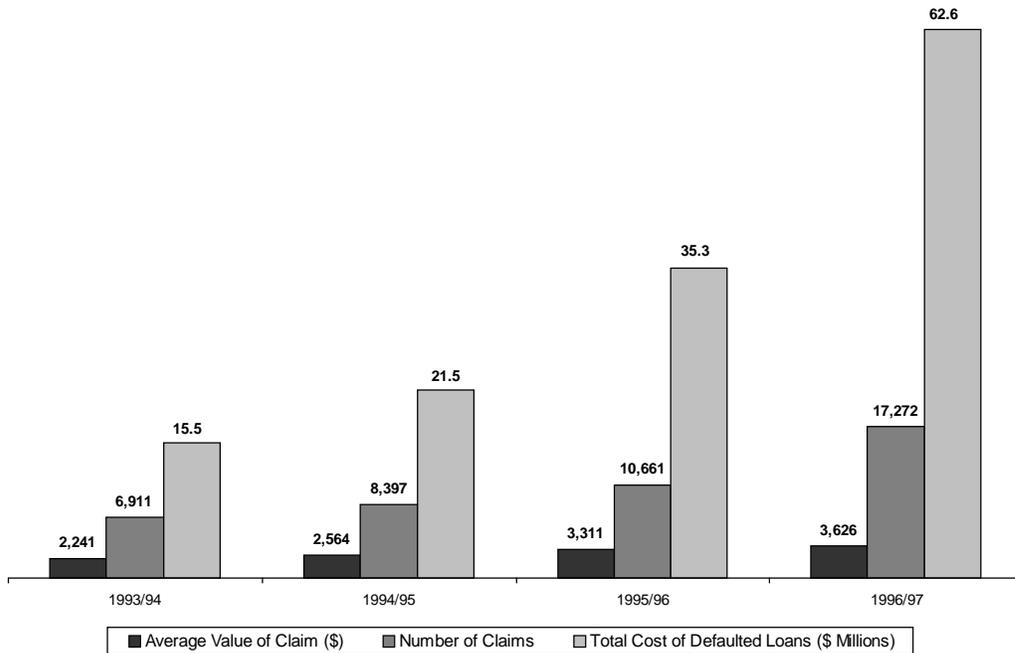
The Ministry will also work with the federal government and lenders to obtain information on the actual value of Canada Student Loans negotiated by individual students.

DEFAULTED STUDENT LOANS

THE RISING COST OF DEFAULTED STUDENT LOANS

Recent growth in the student loans portfolio, due to the elimination of Ontario Study Grants, higher demand and larger loans, has also resulted in a significant increase in payments to financial institutions for students who default on their Ontario Student Loans, as demonstrated by the following chart.

Trend in Student Loan Defaults



Source: Ministry of Education and Training

This escalating trend is likely to continue unless further measures are introduced to reduce defaults and improve collection efforts and results. We noted several areas for improvement as described below.

COLLECTION EFFORTS

Delays in processing default claims and initiating collection actions tend to reduce the chances of successful recovery from delinquent debtors. On November 19, 1996 the Cabinet approved the use of private collection agencies to replace the Central Collection Service of the Management Board Secretariat for collecting all debt owed to the province, including delinquent student loans. However, private collection agencies for student loans were not expected to be selected until the end of March 1997.

There has been a serious lack of student loan collection activity during the last year, primarily because Central Collection Service experienced a 50% reduction in staffing and had not accepted new loans for collection since May 1996.

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Status of Accounts To Be Collected as of October 31, 1996

Location of Claims	Number of Claims	Value of Claims	Collection Efforts
Central Collection Service	31,000	\$55 million	Minimal collection activity in the last year
Ministry	10,000	\$30 million	Returned from Central Collection Service – no collection activity
Ministry	4,000	\$14 million	Unprocessed – no collection activity
Total	45,000	\$99 million	

Source: Central Collection Service and Ministry of Education and Training

Neither Central Collection Service nor the Ministry could provide us with reliable information regarding the results of past collection activity on defaulted student loans.

DEFAULT RATES AT POSTSECONDARY INSTITUTIONS

Postsecondary institutions with poorer quality educational and placement programs and lower standards for admission contribute to student defaults. However, the Ministry only recently took steps to identify postsecondary institutions whose students experienced high default rates. A mid-1996 analysis prepared by the Ministry indicated that default rates for institutions varied from 5% to over 50%. Additionally, program management has acknowledged that rates have been unacceptably high at certain institutions. All institutions were advised of their default rates and requested to take appropriate measures to reduce the rates. The Ministry plans to monitor default rates again in future years.

However, no sanctions have been imposed on educational institutions experiencing high student default rates. Other jurisdictions, such as Alberta and the United States, disqualify institutions

from participating in their loan programs if their default rates exceed 25%. In addition, some American student financial aid programs prohibit profit-oriented schools from participating in their programs if more than 85% of their revenues are derived from these programs. The presumption under this rule is that if profit-oriented schools are providing quality programs and services they should be able to obtain a reasonable percentage of their revenues from other sources.

While the Ministry already calculates the participation rates of students requiring financial assistance for universities and colleges, no rate is calculated for students attending the more than 250 approved private vocational schools in Ontario. The Ministry does not obtain the enrolment statistics needed to accurately calculate the rates. However, this information could be required as a condition of eligibility for participating in OSAP.

PRACTICES USED IN OTHER JURISDICTIONS

As stated earlier, the Province fully guarantees Ontario Student Loans. Consequently, there is less incentive for financial institutions to make rigorous collection efforts prior to filing a claim for reimbursement of a defaulted student loan. The time taken prior to filing a claim also further reduces the province's chances of collection. In addition, the Ministry's efforts to recover defaulted student loans have been limited to normal collection activities and disqualifying students from further assistance.

Other jurisdictions have introduced stronger measures to reduce the risk and cost of defaulted student loans, as the following examples illustrate.

- Other provinces and the federal government have achieved significant savings by paying financial institutions to assume all the risks of defaults and collection activities. The financial institutions are paid a risk premium based on a percentage of the amounts borrowed and students are required to pay interest at slightly higher rates. With Ontario Student Loans issued exceeding \$750 million annually and a default rate prior to collection activities of about 15%, the potential for savings to Ontario from such a risk premium arrangement is significant as long as a risk premium that is less than the default rate can be negotiated.
- The federal and Quebec governments can collect delinquent student loans by offsetting debtors' income tax refunds, but this collection method has not been established with Revenue Canada for delinquent Ontario Student Loans.
- The collection measures used in some other jurisdictions include taking legal action and reporting defaults to credit bureaus.
- Some student financial aid programs in the United States legally require debtors to keep the program informed of their address, thus facilitating the collection of debts. To reduce defaults, these programs also require schools to provide formal entrance and exit counseling to students to ensure that they fully understand their debt obligations.
- In Australia, a Higher Education Contribution Scheme was introduced in 1989 administered through the taxation system, whereby students repay their loans based on a percentage of their taxable income each year once a minimal level of taxable income is reached. Income contingent repayment student loan programs have since been introduced in Sweden, the United Kingdom, New Zealand and the United States.

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One federal initiative that should reduce student loan losses is the new federal bankruptcy legislation which prevents students from including their student loans in discharged debt while they are still in school or are within two years of graduation.

Recommendation

In order to reduce the losses arising from defaulted student loans, the Ministry should:

- ensure that systems are in place to promptly process defaulted claims and expeditiously transfer delinquent accounts to the private collection agencies, once selected; and
- examine options used in other jurisdictions both to improve collection and to reduce the risk and cost of defaulted student loans.

Ministry Response

The Ministry will formalize and streamline transfer procedures of delinquent loan accounts from lenders to private collection agencies. The procedures will be developed and articulated in the formal agreements that will be developed with financial institutions.

The Ministry will identify and implement best practices from other jurisdictions to improve collection activities and reduce the cost of defaulted student loans.

The federal government has agreed to work with Ontario to put in place a process to recover outstanding amounts of student assistance funding owed to the province (for example, loan defaults, bursary overpayments) through income tax refunds. It is anticipated that this will be in place for the 1997 taxation year.

Our research suggests that other jurisdictions and Ontario will be unable to negotiate such favourable risk premium arrangements with financial institutions in the future. The most effective way to reduce the risk and cost of defaulted student loans is to develop an Income Contingent Loan Repayment system. The Ministry is actively pursuing this option with the Ontario Ministry of Finance, Human Resources Development Canada and financial institutions. It is anticipated that an Income Contingent Loan Repayment Program will be available to Ontario students in September 1998.

Central Collection Service Response

Central Collection Service (CCS) is presently undergoing major changes. This Unit is moving to a new business model which includes giving up its role as a “collector” and becoming the “manager” of the collection process. Under this new model, the private collection agencies will handle 100% of the collection activity.

Also, in partnership with the Ministry of Finance, an interim plan of action has been formulated to collect defaulted student loans (18,000 accounts, \$64 million as of May 1997) in the program area in Thunder Bay. As of April 1997, CCS has approximately 20,000 student loan accounts in its system amounting to \$43.7 million. Once the new Collection Management Unit is established, and the contracts with the private collection agencies are in place, these accounts will be forwarded to them for further collection activity.

In November 1996, CCS entered into a contract with four private collection agencies under the Overdue Account Pilot Project to collect aged, written-off debt accounts including over 6,000 student loans amounting to \$18.4 million.

CCS is also an active member in the Corporate Accounts Receivable Project which focuses on improving cash management and revenues/recoveries and reducing outstanding accounts receivable and write-offs.

PERFORMANCE REPORTING

Each year the Ministry publishes in its Estimates Briefing Book the extent of support provided to students, as well as the number of applications processed and approved and the total amounts awarded. This information does not permit assessment of the efficiency or effectiveness of the program or the achievement of the OSAP business plan. Few measures have been established to make such an assessment and those that do exist are not publicly reported. For example, application processing turnaround times and costs and information about the outcomes of eligibility/income verification and collection activities are measures that would better demonstrate service and administrative efficiency.

There are also many indicators that the Ministry can and should report that would better demonstrate how its student financial aid programs interrelate with other government postsecondary education policies, such as funding and tuition fee policies that affect the students' share of the cost of postsecondary education. Examples of trends that can be monitored and reported include: levels of student financial assistance versus tuition fees; proportion of students that require financial assistance by type of postsecondary institution (universities, colleges, and private vocational schools); growth of the student loans portfolio; debt burdens of students in Ontario versus other jurisdictions; and default rates on loans. This type of information has not been reported for OSAP since it issued its last annual report for the 1987/88 fiscal year, whereas other jurisdictions are reporting at least some of this information annually.

Recommendations

To improve accountability, the Ministry should develop and regularly report performance measures to evaluate the efficiency and effectiveness of the Ontario Student Assistance Program and achievement of business plans.

To facilitate policy and decision making, information on how student assistance programs interrelate with other government policies and compare to student support levels provided by other jurisdictions should also be reported.

Ministry Response

As part of the Ministry's Business Plan process, the Ministry is developing performance measures to evaluate the Ontario Student Assistance Program in 1997/98. These performance measures will be reported to the provincial Legislature in future ministry Business Plans.

3.06
